BRITISH COLUMBIA SYSTEMS CORPORATION ANNUAL REPORT 1984-85

BCSC

85-5644/

British Columbia Cataloguing in Publication Data

British Columbia Systems Corporation.
British Columbia Systems Corporation annual report.
1981/82.-

Report year ends March 31st.
Continues: British Columbia Systems Corporation.
Annual report. ISSN 0710-846X

1. British Columbia Systems Corporation - Periodicals.
2. British Columbia - Executive departments - Management - Data processing - Periodicals.
3. Administrative agencies - British Columbia - Management - Data processing - Periodicals. I Title.

JL429.5.A8b74 354.711000285

Province of
British Columbia

Ministry of
Consumer and
Corporate Affairs

Parliament Buildings
Victoria
British Columbia
V8V 1X4

OFFICE OF THE MINISTER

June 15, 1985

The Honourable Robert Gordon Rogers,
Lieutenant-Governor of the Province of British Columbia

May it please your Honour:

The Annual Report of the British Columbia Systems Corporation for the fiscal year 1984/1985 is herewith respectfully submitted.

Honourable J. J. Hewitt

CORPORATE HEADQUARTERS

4000 Seymour Place
Victoria, British Columbia
V8X 4S8

VANCOUVER OFFICE

601 West Broadway
Vancouver, British Columnbia
V5Z 4C2

AUDITORS

Clarkson Gordon
Chartered Accountants
Victoria, British Columbia

EXECUTIVE

W.E. EVANS
President and Chief Executive Officer

G.F. GABEL
Vice President Shared Services

N.E. GLASSEL
Vice President Client Services (Resources)

R.N. GREER
Vice President Client Services (Administrative)

C.D. SLADE
Vice President Advanced Systems Centre

B.H. GRAY
Executive Director Policy, Planning and Administration

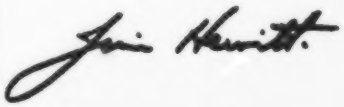
J.G. HAYES
Comptroller

MESSAGE FROM THE MINISTER RESPONSIBLE

Having assumed responsibility for the B. C. Systems Corporation effective February, 1985, I would first like to thank my colleague, the Honourable H. A. Curtis, Minister of Finance, for his important contribution to the Corporation during his time as Minister responsible.

While BCSC has been through some difficult times, it is now clear that the Corporation will play a major role in the management of information systems for the Government of British Columbia. The immediate emphasis will be to complete the redefinition of BCSC's role; the primary goal will be the efficient provision of services to ministries and other government agencies.

A significant challenge and opportunity lies ahead for BCSC and its employees. I am confident that with the enthusiasm and capability of the new Board of Directors and the staff of the Corporation, the challenge can be met.



The Honourable J. J. Hewitt
Minister responsible for the B. C. Systems Corporation

BOARD OF DIRECTORS

D.L. EMERSON
Deputy Minister of Finance
Province of British Columbia
Victoria, British Columbia
Acting Chairman of the Board

\+ C.F.M. SMITH
President and Chief Operating Officer
McGavin Foods Limited
Vancouver, British Columbia
Chairman of the Board

++ L.I. BELL
Deputy Minister of Finance
Province of British Columbia
Victoria, British Columbia

W.E. EVANS
President and Chief Executive Officer
British Columbia Systems Corporation
Victoria, British Columbia

HONOURABLE HUGH A. CURTIS
Minister of Finance
Province of British Columbia
Victoria, British Columbia

M.J. FALKINS
Senior Vice President
Reed, Stenhouse Ltd.
Victoria, British Columbia

R.J. GAYTON
Partner
Peat, Marwick, Mitchell & Co.
Coquitlam, British Columbia

HONOURABLE J.J. HEWITT
Minister of Consumer and Corporate Affairs
Province of British Columbia
Victoria, British Columbia

B. SANGSTER
Consulting Partner
Deloitte, Haskins, and Sells
Vancouver, British Columbia.

+++ W.L. STAPLETON
President and Chief Executive Officer
British Columbia Systems Corporation
Victoria, British Columbia

J.R. WEBBER
Partner
Webber and Company
Kamloops, British Columbia

\+ Resigned from the Board of Directors effective August 2, 1984
++ Resigned from the Board of Directors effective May 1, 1984
+++ Resigned from the Board of Directors effective December 31, 1984

REPORT FROM THE CHAIRMAN

1984–85 was a year of major change for the B.C. Systems Corporation. The event which set the direction for all subsequent events was the Government's decision, announced in April 1984, to reject all bids received for sale of the Corporation. (BCSC had been offered for sale to the private sector in August 1983.)

Along with the decision not to sell, however, the Government announced its intention to streamline the Corporation and to transfer some of its service functions to the private sector. Several initiatives were undertaken to accomplish these objectives. The most notable was the creation of HTS Hi-Tech Systems Ltd., a private sector company comprised of former BCSC employees, to provide facilities management services to the Corporation. These services include the operation and technical support of BCSC's mainframe computers. This initiative involved the movement of some 125 employees to the private sector.

Other smaller scale initiatives were undertaken to privatize the remaining portion of BCSC's systems development services. By year end, almost all system development services for Government were being provided by private sector firms.

As a result of streamlining and privatization initiatives BCSC reduced its full time staff complement from 522 to 357 during the 1984–85 fiscal year. This brings the total staff reduction to 263 since the peak in 1982/83.

While these initiatives were taking place, effort also continued towards the completion of the implementation of Information Systems Branches located at Ministry sites. By year end, there were some 170 BCSC employees assigned to the Ministry Information Systems Branches, along with a similar number of Ministry employees.

The development of policy with respect to the management of Information Systems Branches in Government was also a major priority. A committee, responsible to Treasury Board and comprised of a number of senior Government managers, was established in January 1985. The Committee was assigned responsibility for developing an Information Systems Management Framework policy document. By year end, this Committee had made major advances in its task, the initial emphasis being placed on defining the roles and responsibilities of Ministries, BCSC, and other central agencies with respect to the management of information systems in Government. It is anticipated that the systems policy document, scheduled for completion in mid 1985–86, will clearly establish the future direction for the management of Information Systems in Government.

Changes also occurred at both the Board and senior management levels within the Corporation. In February, 1985, responsibility for B.C. Systems Corporation shifted from the Honourable H. A. Curtis, Minister of Finance, to the Honourable J. J. Hewitt, Minister of Consumer and Corporate Affairs. Resigning from the Board of Directors over the course of the year were Mr. C.R.M. Smith, former Chairman, L.I. Bell, and W.L. Stapleton, former President and Chief Executive Officer. I would like to sincerely thank each of these individuals for the outstanding contributions they made in guiding the Corporation through a difficult period in its evolution.

I would also like to express my sincere appreciation to the staff of B.C. Systems. As with any organization of this kind it was only through the professional attitude and continued dedication of its people that the Corporation has been able to continue to offer high quality services during times of major change. The people of B.C. Systems Corporation deserve an expression of respect and thanks for their untiring efforts. They have put the Government of British Columbia at the leading edge in the application of computer technology to the provision of services to the public.

D.L. Emerson
Acting Chairman
BCSC Board of Directors

REPORT FROM THE PRESIDENT

The past year has been a period of reassessment and rebuilding for BCSC. The Government's decision, announced in April 1984, to reject all bids for sale of the Corporation and to embark on a program of streamlining and privitization provided the opportunity to fundamentally rethink the role of BCSC in government.

The Corporation responded to the challenge of significantly downsizing its operations by reducing its full time staff complement from 522 to 357 by year end. This was accomplished by privatizing several functions including the creation of HTS Hi-Tech Systems Ltd., to operate BCSC's mainframe computer centre, and further privatization of the systems development function. Significant staff reductions were also made through attrition and redeployment of existing staff resources. The Corporation also took important steps to strengthen Information Systems Branches within Ministries.

During the past year BCSC's data communications network grew by 60%. The network now includes 3500 terminals and 38 mini and mainframe computers in 80 communities throughout the Province. Similar growth is anticipated for 1985/86. Further development of the data communications network is considered essential if the full benefits of technological improvements are to be realized at the operational level.

Significant progress was also made in 1984/85 in implementing office automation technology throughout government. The number of electronic mail users increased from 300 at the beginning of the year to over 1000 by year end. This number is expected to increase by at least 50% in 1985/86.

In BCSC's mainframe computing centre the total workload increased by 15%. Batch processing grew by 10%, while on-line transactions grew by 40%. A growth rate of 25% is expected next year.

Critical to rethinking BCSC's role was work done on developing an Information Systems Management Framework for application government wide. Working co-operatively with senior Ministry officials, significant progress had been made by year end on this important policy document. The Information Systems Management Framework will clearly establish how information systems will be managed in the government of British Columbia, by defining roles and responsibilities, and establishing administrative policies and technical standards. BCSC will continue to play a central role, particularly in the development of a high level government wide information systems strategy.

The 1984/85 financial results reflect the transition the Corporation is going through. Necessary capital expenditures coupled with high financing costs continued to put upward pressure on expenditures. Data processing revenues were up 13% over the previous year. The net result was a loss of $1.4 million for 1984/85, the same loss as in 1983/84. Through continued restraint of discretionary expenditures and improved revenue performance, a significant improvement in the Corporation's financial performance is anticipated for 1985/86.

A major objective for 1985/86 will be to continue the process of stabilization and revitalization begun this year. In an industry characterized by rapid technological change, flexibility and responsiveness must be the theme. In this regard, the Corporation will continue to develop more varied and flexible data processing alternatives to meet the wide range of Ministry needs. BCSC will also strive to significantly improve the cost competitiveness of its services.

Recognizing that people are its number one resource, emphasis will be placed on staff development and training. Mechanisms will also be developed to involve staff at all levels in corporate decision making.

Having made these adjustments and with a new role for the Corporation clearly emerging, BCSC is well positioned for the future.

I would like to thank the staff of the Corporation for their unstinting efforts during a difficult year. It was only through their efforts that the Corporation's high service levels were maintained.

The future holds many challenges and opportunities for BCSC. I am confident that with the continued support of our employees and the Board of Directors, the Corporation can establish itself as a national leader in the provision of systems services in the public sector.

W.E. Evans
President and
Chief Executive Officer

A MESSAGE FROM THE CHAIRMAN OF THE USER REVIEW COMMITTEE

On behalf of the User Review Committee, I am pleased to report on its activities during the past year.

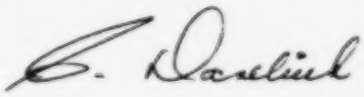
The resolution of the status of BCSC resulted in a re-dedication of commitment by the User Review Committee to the new strategic direction of the Corporation. The Committee began planning its long-term activities in a climate of relative stability.

In response to the privatization of the mainframe operations, the User Review Committee provided two of its members to sit on the Performance Evaluation Board. Also, as part of the new thrust, five sitting members and two former members participated in the Systems Steering Committee to produce the Information Systems Management Framework. In addition, the remaining members provided constructive suggestions to the Steering Committee. The User Review Committee views the new framework as a significant step in establishing an enhanced, cooperative relationship among the major participants.

A sub-committee was struck by the User Review Committee to investigate and to recommend means by which two-way transfers of staff between BCSC and the Ministries could be accommodated to the mutual benefit of both parties. Discussions with BCSC and the Provincial Secretary are continuing with the objective of removing real and imagined barriers.

The User Review Committee looks to the future with optimism and confidence: optimism for the new direction of the Corporation, and confidence that it will succeed in its new mission. We offer our support and are prepared to offer counsel to the staff of the Corporation and the Board of Directors as they begin to implement the Information Systems Management Framework.

I would like to extend my sincere thanks to the Committee members for their contributions and to the staff of the Corporation who have provided support and encouragement to the Committee. My best wishes for continued success are extended to all individuals who use information as a critical resource.



C. Daneliuk,
Chairman
User Review Committee

AUDITOR'S REPORT

British Columbia Systems Corporation
(incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

The Honourable James J. Hewitt
Minister of Consumer and
Corporate Affairs
Province of British Columbia

We have examined the balance sheet of the British Columbia Systems Corporation as at March 31, 1985 and the statements of income and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Victoria, Canada
May 31, 1985

Clarkson Gordon

Chartered Accountants

BALANCE SHEET March 31, 1985 (000's)

British Columbia Systems Corporation
(incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

ASSETS

	1985	1984
Current:		
Cash	$ 1,764	
Accounts receivable	16,066	$26,939
Prepaid expenses	216	348
Total current assets	18,046	27,287
Fixed, at cost:		
Land	6,917	6,917
Building	30,708	30,646
Computer and ancillary equipment (note 3)	21,201	17,479
Furniture and fixtures	2,030	2,234
Leasehold improvements	26	147
Deposit on equipment	2,535	
	63,417	57,423
Less accumulated depreciation and amortization (note 3)	10,838	8,003
Net fixed assets	52,579	49,420
Other:		
Deferred foreign exchange translation loss [note 5(b)]	1,040	416
	$71,665	$77,123

Approved by the Directors:

Director

Director

(see accompanying notes)

LIABILITIES

	1985	1984
Current:		
Bank overdraft		$ 2,579
Accounts payable and accrued charges	$17,132	17,053
Deferred revenue		957
Current portion of long-term debt (note 5):		
Lease capitalization	2,556	1,926
Other	579	579
Total current liabilities	20,267	23,094
Long-term debt (note 5):		
Lease capitalization	4,804	6,241
Other	39,438	39,205
Note Payable	10,000	10,000
	54,242	55,446
Deficit (note 6)	(2,844)	(1,417)
	$71,665	$77,123

STATEMENT OF INCOME AND DEFICIT

British Columbia Systems Corporation
(incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

For the year ended March 31, 1985
(000's)

	1985	1984
Revenue:		
Processing	$30,985	$27,397
System design and programming	11,168	11,849
Direct expenses recovered from clients	29,142	35,460
Interest and other income	1,394	880
Total revenue	72,689	75,586
Expenses:		
Employee	17,848	22,373
Equipment rental and maintenance	5,743	5,024
Services purchased for clients	27,503	32,378
Facilities management fees(note 11)	4,114	
Administrative and general	3,506	4,201
Depreciation and amortization (note 7)	5,813	4,863
Interest on long-term debt	9,195	8,399
Total expenses	73,722	77,238
Net loss before extraordinary items	1,033	1,652
Extraordinary items (note 8)	394	(235)
Net loss for the year	1,427	1,417
Deficit (retained earnings), beginning of year	1,417	(20)
Net income transferred to the Province of British Columbia pursuant to Section 8(5) of the System Act (note 6)		20
Deficit, end of the year	$ 2,844	$ 1,417

(see accompanying notes)

STATEMENT OF CHANGES IN FINANCIAL POSITION

British Columbia Systems Corporation
(incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

For the year ended March 31, 1985
(000's)

	1985	1984
Source of working capital:		
Operations –		
Net income for the year before extraordinary items	**$(1,033)**	$(1,652)
Add items not affecting working capital:		
Depreciation and amortization	**5,813**	4,863
Deferred foreign exchange translation loss	**368**	139
Total from operations	**5,148**	3,350
Drawdown of funds held for facility less related amounts payable		2,766
Proceeds on disposition of equipment	**637**	1,822
Additions to long-term debt (net of current portion)	**905**	36
Total source of working capital	**6,690**	7,974
Application of working capital:		
Extraordinary items (note 8)	**394**	(235)
Add items not affecting working capital included therein	**104**	
	498	(235)
Reduction of non-current deferred revenue		32
Additions to fixed assets	**9,505**	3,520
Long-term debt reductions	**3,101**	2,591
Net income, prior year, transferred to the general revenue of the Province of British Columbia (note 6)		20
Total application of working capital	**13,104**	5,928
(Decrease) increase in working capital	**(6,414)**	2,046
Working capital, beginning of the year	**4,193**	2,147
Working capital (deficiency), end of the year	**$(2,221)**	$4,193

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS March 31, 1985

British Columbia Systems Corporation
(incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

1. The Corporation

The British Columbia Systems Corporation is incorporated as a Crown Corporation of the Province of British Columbia under the System Act R.S.B.C. 1979.

The purpose of the Corporation is to establish and implement such policies as it considers appropriate for the consolidation and rationalization of data processing services provided for government entities. To achieve this purpose, the Corporation:

a) provides data processing and related services required for governmental purposes;

b) recommends and implements data processing standards, practices, policies and technical guidelines to facilitate a progressive improvement of information systems required by government entities; and,

c) subject to approval of the Lieutenant-Governor in Council, sets rates for the use of data processing products and services provided to its users.

In 1985 the Corporation received 95% of its revenues from Provincial Government Ministries with the balance from other Government entities.

2. Significant accounting policies

As prescribed by Section 9(6) of the System Act, the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Accrual accounting:

The accrual method of accounting is used in the preparation of these financial statements. Accordingly, revenues are recorded in the period they are earned and expenditures are recorded in the period they are incurred.

b) Fixed assets:

The Corporation leases a substantial portion of its computer equipment. Certain of these leases, however, transfer the benefits and risks incident to ownership to the Corporation. In such cases, as more fully described in notes 3 and 5, the leases have been capitalized.

b) Fixed assets: (continued)

The costs of fixed assets are depreciated and amortized over their estimated useful lives as follows:

Building	–	over forty years, on a straight-line basis
Building plant and equipment	–	over twenty years, on a straight-line basis
Computer mainframes	–	over the terms of the leases (4 to 5 years) on an annuity basis
Other computer and ancillary equipment	–	over varying periods, mainly three years, on a straight-line basis (see note 7)
Furniture and fixtures	–	over ten years, on a straight-line basis
Leasehold improvements	–	over terms of leases, on a straight-line basis

c) Revenue recognition:

Revenue from fixed price contracts for systems development projects is recognized on the percentage completion basis.

d) Development costs:

Development costs (including systems design and programming) are expensed as incurred.

e) Income taxes:

The Corporation is exempt from Federal and Provincial income taxes.

f) Sinking funds:

Payments made to sinking funds with respect to retirement provisions of the sinking fund debentures will be carried until such time as the debentures are redeemed. Interest earned on the sinking funds is recorded as income.

g) Foreign currency translation:

Debt due in foreign currency is translated to Canadian dollars at the exchange rate prevailing at year end. Any gain or loss on translation is deferred and amortized over the remaining term of the debt, including the current year.

3. Capitalization of leases

Included in fixed assets is computer equipment recorded at a cost of $11,360,000 (1984 - $10,056,000) arising from the capitalization of certain leases. The related accumulated depreciation amounts to $4,028,000 (1984 - $1,933,000).

4. Borrowing authority

Pursuant to Section 8(6) of the System Act, the Corporation may be advanced or borrow up to $65,000,000. In computing that amount the aggregate net rentals payable by the Corporation under leases of personal property for a term exceeding one year shall be excluded.

5. Long-term debt

a) Lease capitalization:

The minimum annual contractual obligations with respect to capitalized leases are as follows:

1986	$3,282,000
1987	3,272,000
1988	1,970,000
1989	33,000
1990	17,000
	8,574,000
Less imputed interest at an average annual rate of 12.1%	1,214,000
Capitalized lease obligations	7,360,000
Less current portion	2,556,000
Long-term portion	$4,804,000

5. Long-term debt (continued)

b) Other:

	Interest rate	Maturity Date	Amount
Sinking fund debentures:			
Canada Pension Plan - Series 1	15.69%	2002	$12,892,000
Canada Pension Plan - Series 2	16.10%	2002	11,580,000
Private placement debt for U.S. $11,400,000 repayable in U.S. dollars (see below)	16.88%	1987	15,545,000
			40,017,000
Less current portion			579,000
Long term portion			$39,438,000

Annual maturities and mandatory sinking fund requirements for each of the next five years and thereafter are as follows:

	Sinking fund payments	U.S. debt	Total
1986	$ 579,000		$ 579,000
1987	579,000	$15,545,000	16,124,000
1988	579,000		579,000
1989	579,000		579,000
1990	579,000		579,000
Thereafter	21,577,000		21,577,000
	$24,472,000	$15,545,000	$40,017,000

The deferred foreign exchange loss on translation of the U.S. dollar debt to Canadian dollars amounted to $1,040,000 (1984 - $416,000), after charging $368,000 (1984 - $139,000) for amortization in the year.

c) Note payable:

The Corporation has the following financial arrangements with National Victoria and Grey Trust Company:

Note	Interest rate	Maturity Date	Amount
BCSC-1	0.75% less than average bank prime calculated quarterly	1987	$10,000,000

The Province of British Columbia has guaranteed the payment of principal and interest on all long-term debt issued by the Corporation.

6. Net income

Pursuant to Section 8(5) of the System Act, the Lieutenant-Governor in Council may, each fiscal year, on the recommendation of the Minister of Finance, direct the transfer to the government of all or part of the net income for the current year or for previous years to the extent not previously so transferred.

7. Change in fixed asset life estimates

During the year, the Corporation reviewed the estimated useful lives assigned, for depreciation purposes, to the various classes of fixed assets. Due to rapid changes in technology, the estimated useful lives of certain classes of computer and ancilliary equipment and purchased software were reduced to three years from five years. This change in estimated life has been applied effective April 1, 1984 and results in additional depreciation charges in the current year of $669,000.

8. Extraordinary items

	1985	1984
Reduction in provision (1984 - provision) for costs associated with proposed reorganization of the Corporation	**$118,000**	$(835,000)
Provision for hardware lease termination cost	**(851,000)**	
Volume rebates received from suppliers relating to prior years' purchases	**339,000**	
Refund from the Ministry of Provincial Secretary and Government Services for excess contributions in previous years to the Public Service Long Term Disability Plan		1,070,000
Net extraordinary revenue (expenditure)	**$(394,000)**	$235,000

9. Lease commitments

The Corporation leases some of its premises and computer equipment for periods of up to five years.

The minimum annual contractual obligations of non-cancellable leases are as follows (excluding amounts relating to capitalized leases):

1986	-	$2,385,000
1987	-	$740,000
1988	-	$650,000
1989	-	$540,000
1990	-	$135,000

10. Pension and superannuation plans

Until the Corporation establishes a pension or superannuation plan, the Public Service Superannuation Act applies to the Corporation and its officers and employees. The Corporation is obliged to pay into the Public Service Superannuation Fund amounts equal to employees' contributions required under the Public Service Superannuation Act.

11. Facilities management contract

During the year the Corporation awarded a facilities management contract to Hi-Tech Systems Ltd., a private company owned and operated by former employees of the Corporation. Under the terms of the contract, the company provides the Corporation with management services related to the operation of its central computer operation for a 25 month period ending September 30, 1986. The contract provides for a one year renewal option, exercisable by the Corporation.

12. Subsequent event

On April 1, 1985, the Corporation, assisted by the Ministry of Finance in its capacity as Fiscal Agent, has arranged short-term financing of $6,000,000 for computer equipment purchased in March 1985.

13. Comparitive figures

Certain comparitive figures have been reclassified to conform to the method of presentation adopted in 1985.